

28 May 2020

Sunway Berhad

Feeling the Covid-19 Effects

By Goh Yin Foo | gohyf@kenanga.com.my

1QFY20 was marred by the Covid-19 effects as CNP stood at RM66.4m (-49% YoY), which represents just 10%/9% of our/consensus full-year expectation. Particularly hit hard during the quarter were the hospitality & leisure (which is parked under property investments), construction and healthcare segments. With 2QFY20 expected to be even weaker QoQ, this has prompted us to cut our FY20E/FY21E net profit by 51%/5%. With earnings recovery expected in FY21, we maintain our MP call with a higher TP of RM1.63 (based on adjusted PBV of 0.95x).

Below expectations. 1QFY20 saw the effects of the Covid-19 pandemic, particularly after the implementation of the MCO (Movement Control Order) on 18 March. This resulted in CNP of RM66.4m (-49% YoY/-57% QoQ), which missed our (at 10%) and consensus (at 9%) expectations with the Covid-19 impact being felt almost across the board.

Results' highlights. By segmental reporting, the worst hit divisions were: (i) property investment with net profit contribution plunging to RM29.7m (-36% YoY/-61% QoQ), hit by the slump in the hospitality & leisure business and the absence of fair value gains from revaluation of investment properties which had previously lifted 4QFY19 earnings, (ii) construction which contributed net profit of RM11.2m (-39% YoY/-28% QoQ) following the MCO disruptions, and (iii) healthcare, which slipped into a net loss of RM4.5m (vs. net profits of RM15.2m in 1QFY19 and RM11.2m in 4QFY19) due to fewer number of admissions and outpatient treatments amid the MCO and start-up losses at Sunway Medical Centre Velocity (which commenced operation in Sep 2019 and posted an operating loss of RM11.9m in 1QFY20). Meanwhile, the property development segment fared relatively better with a net profit contribution of RM26.6m (+11% YoY/-73% QoQ) considering that 4QFY19 was lifted by a lumpy recognition from a property development in China.

Fund-raising plan. Separately, SUNWAY has proposed a rights issue of up to 1.11b ICPS (Irredeemable Convertible Preference Shares) at an issue price of RM1.00 each on the basis of one ICPS for every five existing shares held. These 5-year tenure ICPS – which will be listed on Bursa and come with a cumulative preferential dividend rate of 5.25% p.a. to be paid at the discretion of the company – will be mandatorily converted into new SUNWAY shares at a conversion price of RM1.00 via the surrendering of the ICPS (whereby 50% to be converted on Year 4 anniversary and the balance on maturity date). The maximum proceeds of RM1.11b will be utilised for debt repayment (RM733m), capex to build hospitals (RM200m) and property development & property investment expenditure (RM180m). On a proforma basis, its share base is expected to increase from 4.93b shares to 6.05b shares upon full conversion. We deem the ICPS offer to be attractive given the steep discount of 31.5% between the issue price and the theoretical ex-rights price of RM1.46 per SUNWAY share.

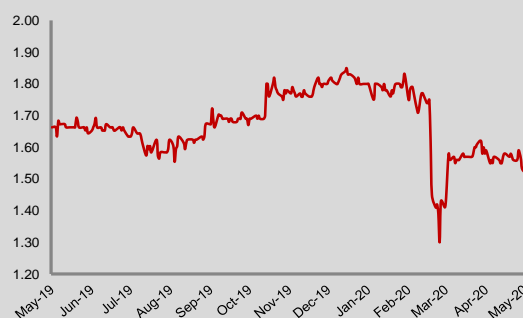
Outlook. The Group raked in new property sales of RM522m (of which 79% came from Singapore) and secured new construction contracts of RM513m in 1QFY20. With unbilled property sales of RM2.6b and construction order-book of RM5.4b as of end-Mar 2020, earnings visibility remains intact. However, following the staggered re-opening of the economy starting from early May, 2QFY20 is expected to be sequentially weaker. Consequently, we have adjusted our FY20E and FY21E CNPs to RM316m (-51%) and RM670m (-5%), respectively.

Still MARKET PERFORM. We continue to like Sunway for its diversified earnings base, with the resiliency of its REIT and healthcare businesses providing stability to counter the cyclical nature of the property development and construction segments over the longer term. We have upped our TP from RM1.45 to RM1.63 after raising our PBV multiple to 0.95x based on mean valuation (to reflect a potential recovery from FY20 beaten down earnings).

MARKET PERFORM ↔

Price : **RM1.51**
Target Price : **RM1.63** ↑

Share Price Performance



KLCI 1,451.73
YTD KLCI chg -8.6%
YTD stock price chg -16.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK EQUITY
Market Cap (RM m)	7,401.1
Shares Outstanding	4,901.4
52-week range (H)	1.87
52-week range (L)	1.25
3-mth avg daily vol:	4,691,708
Free Float	32%
Beta	1.0

Major Shareholders

Sungei Way Corp Sdn Bhd	51.2%
Employee Provident Fund Board	9.0%
Active Equity Sdn Bhd	3.2%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	4,780	3810	5440
EBIT	486	945	945
PBT	914	540	900
Net Profit	712	316	670
Core PATAMI	638	316	670
Consensus (NP)	N.A.	699	745
Earnings Revision	N.A.	-51%	-5%
Core EPS (sen)	13.1	6.4	13.6
Core EPS growth (%)	8%	11%	112%
*NDPS (sen)	9.1	3.2	6.8
NTA per Share (RM)	1.7	1.77	1.77
Price to NTA (x)	0.9	0.9	0.9
PER (x)	11.5	23.5	11.1
Debt-to-Equity ratio (x)	1.2	0.9	0.9
Return on Asset (%)	2.7%	2.8%	2.8%
Return on Equity (%)	7.6%	6.6%	6.6%
Net Div. Yield (%)	6%	2.1%	4.5%

*Only cash dividend is reflected.

28 May 2020

Result Highlight					
FYE Dec (RM m)	1Q20	4Q19	QoQ	1Q19	YoY
Turnover	971.4	1,353.0	-28%	1,123.6	-14%
EBIT	44.7	71.2	-37%	117.8	-62%
Interest inc/(exp)	24.5	65.1	-62%	17.8	38%
Share of profit from assoc/JVs	38.6	89.3	-57%	41.7	-7%
Fair value gain on invmt prop/assoc	0.0	35.5	n.m.	0.0	n.m.
Pretax profit	107.8	261.2	-59%	177.3	-39%
Taxation	(17.5)	(41.5)	-58%	(25.3)	-31%
Profit after tax	90.3	219.7	-59%	151.9	-41%
Minority interest	(12.0)	(18.8)	-36%	(15.5)	-23%
Distribution to holders of perpetual sukuk	(11.9)	(16.5)	-28%	(5.3)	126%
PATAMI	66.4	184.4	-64%	131.2	-49%
Core PATAMI	66.4	154.1	-57%	131.2	-49%
DPS (sen)	0.0	4.5		0.0	
EBIT margin	4.6%	5.3%		10.5%	
Pretax margin	11.1%	19.3%		15.8%	
EPS (sen)	1.4	3.8		2.7	
Core EPS(sen)	1.4	3.2		2.7	
Effective tax	16.2%	15.9%		14.3%	

Source: Company, Kenanga Research

Segmental Breakdown					
FYE Dec (RM'm)	1Q20	4Q19	QoQ	1Q19	YoY
Revenue					
Property Development	139.2	218.2	-36%	87.9	58%
Property Investment	134.3	220.9	-39%	196.7	-32%
Construction	218.0	318.0	-31%	346.2	-37%
Trading & Manufacturing	194.2	232.2	-16%	251.3	-23%
Quarry	74.1	136.4	-46%	44.2	68%
Healthcare	149.2	162.9	-8%	126.8	18%
Invmt Hldgs & Others	62.4	64.4	-3%	70.5	-12%
Total	971.4	1,353.0	-28%	1,123.6	-14%
Pretax Profit					
Property Development	39.1	117.2	-67%	32.8	19%
Property Investment	32.0	89.6	-64%	57.4	-44%
Construction	22.6	38.1	-41%	39.9	-43%
Trading & Manufacturing	0.5	4.5	-89%	6.6	-92%
Quarry	3.1	8.0	-62%	1.7	76%
Healthcare	(4.5)	11.4	n.m.	15.4	n.m.
Invmt Hldgs & Others	15.0	(7.7)	n.m.	23.4	-36%
Total	107.8	261.2	-59%	177.3	-39%
PATAMI (before dist to Sukuk holders)					
Property Development	26.6	98.1	-73%	24.0	11%
Property Investment	29.7	76.7	-61%	46.1	-36%
Construction	11.2	15.6	-28%	18.4	-39%
Trading & Manufacturing	0.6	0.5	24%	4.6	-86%
Quarry	1.9	5.9	-67%	1.2	63%
Healthcare	(4.5)	11.2	n.m.	15.2	n.m.
Invmt Hldgs & Others	12.8	(7.1)	n.m.	27.0	-52%
Total	78.3	200.9	-61%	136.4	-43%
Pretax Profit Margin					
Property Development	28.1%	53.7%		37.4%	
Property Investment	23.8%	40.6%		29.2%	
Construction	10.4%	12.0%		11.5%	
Trading & Manufacturing	0.3%	1.9%		2.6%	
Quarry	4.1%	5.9%		3.9%	
Healthcare	-3.0%	7.0%		12.2%	
Invmt Hldgs & Others	24.1%	-11.9%		33.2%	
Total	11.1%	19.3%		15.8%	

Source: Company, Kenanga Research

28 May 2020

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
PROPERTY DEVELOPERS UNDER COVERAGE																		
ECO WORLD DEVELOPMENT GROUP	0.405	1,192.5	Y	10/2020	-19.2%	25.6%	8.0%	7.8%	6.0	5.5	5.1	0.3	0.3	4.8%	2.7%	0.410	OP	
IOI PROPERTIES GROUP BHD	1.06	5,836.5	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	8.8	9.1	8.4	0.3	0.3	3.5%	4.7%	1.21	OP	
LBS BINA GROUP BHD	0.360	545.1	Y	12/2020	15.2%	2.5%	8.5%	5.2%	6.6	8.1	7.3	0.4	0.4	5.6%	2.8%	0.330	MP	
MAGNA PRIMA BHD	0.800	266.1	Y	12/2020	7.7%	8.4%	-136.3%	-115.2%	N.A.	N.A.	N.A.	0.5	0.6	-4.3%	0.0%	0.550	UP	
MAH SING GROUP BHD	0.435	1,056.0	Y	12/2020	10.1%	3.7%	5.4%	-3.5%	9.7	10.6	11.2	0.3	0.3	3.3%	9.2%	0.450	OP	
MALAYSIAN RESOURCES CORP BHD	0.555	2,448.7	Y	12/2019	-36.4%	42.7%	9.9%	148.8%	102.6	93.3	37.5	0.5	0.5	0.5%	0.0%	0.430	UP	
SIME DARBY PROPERTY BHD	0.630	4,284.5	Y	12/2019	1.5%	-7.7%	-7.3%	6.6%	6.1	6.6	6.1	0.4	0.4	7.0%	4.8%	0.880	OP	
SP SETIA BHD	0.770	3,112.7	Y	12/2020	19.9%	7.7%	48.0%	59.9%	12.2	8.2	5.1	0.3	0.2	2.7%	3.6%	0.860	OP	
SUNWAY BHD	1.51	7,401.1	Y	12/2020	11.5%	8.8%	0.8%	9.3%	11.5	23.5	11.1	0.9	0.9	6.6%	2.1%	1.63	MP	
UEM SUNRISE BHD	0.445	2,019.2	Y	12/2020	-17.5%	-0.9%	-9.3%	-13.8%	6.5	7.1	8.3	0.3	0.3	3.9%	2.2%	0.580	OP	
UOA DEVELOPMENT BHD	1.77	3,479.9	Y	12/2020	6.6%	15.7%	-9.0%	13.3%	9.6	9.8	8.7	0.7	0.7	7.0%	7.9%	1.79	OP	
Simple Average					0.1%	9.9%	-7.7%	11.5%	17.9	17.0	10.8	0.4	0.4	3.8%	3.8%			
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.280	216.6	Y	04/2020	33.2%	-0.8%	43.7%	-0.7%	14.7	10.2	10.3	0.2	N.A.	2.0%	6.8%	0.270	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.70	1,418.2	Y	03/2020	5.3%	1.2%	2.9%	-0.6%	6.5	6.3	6.3	0.9	0.9	15.1%	7.1%	1.98	BUY	
PARAMOUNT CORP BHD	0.760	467.0	Y	12/2020	9.4%	2.7%	-31.8%	1.4%	4.5	6.6	6.5	0.4	0.3	41.7%	6.6%	1.15	N.A	
TAMBUN INDAH LAND BHD	0.500	216.7	Y	12/2020	10.6%	9.1%	-13.6%	11.9%	4.5	5.2	4.6	0.3	0.3	6.2%	7.8%	0.750	BUY	
TITIJAYA LAND BHD	0.260	330.7	Y	06/2020	-52.0%	8.0%	-73.3%	51.7%	9.9	37.2	24.5	0.3	0.3	0.7%	96.2%	0.280	N.A	
YONG TAI BHD	0.065	62.1	Y	06/2020	53.9%	18.4%	-686.7%	-140.0%	N.A.	N.A.	N.A.	0.1	0.1	-5.0%	0.0%	0.105	N.A	

Source: Kenanga Research

28 May 2020

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

